

Message Text

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PAGE 01 STATE 072568

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ORIGIN EUR-03

INFO OCT-01 ISO-00 /004 R

66616

DRAFTED BY EUR/REP:RDHARDING

APPROVED BY EUR/RPE:ANTHONY C. ALBRECHT

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R 312300Z MAR 75

FM SECSTATE WASHDC

TO USMISSION OECD PARIS

UNCLAS STATE 072568

FOLLOWING REPEAT PARIS 7970 ACTION SECSTATE INFO LONDON

ROME GENEVA EC BRUSSELS DATED 28 MAR 75

QUOTE

UNCLAS PARIS 07970

E.O. 11652: N/A

TAGS: EFIN, ETRD, FR

SUBJECT: EXPORT PRODUCTION COST RISK INSURANCE IN FRANCE

REF: STATE 58392

THE FOLLOWING IS THE INFORMATION WE WERE ABLE TO
GATHER IN RESPONSE TO REFTEL.

1. BACKGROUND TO PROGRAM. A PROGRAM OF EXPORT PRODUCTION COST INSURANCE WAS INSTITUTED IN FRANCE AS EARLY AS L948. UNTIL 1960, IT WAS ADMINISTERED DIRECTLY BY THE GOVERNMENT (WHICH WAS STILL PAYING CLAIMS AS LATE AS L973). SINCE L960, IT HAS BEEN ADMINISTERED BY COFACE, FRENCH OFFICIAL AGENCY FOR INSURANCE OF CERTAIN FOREIGN TRADE RISKS, MAINLY EXPORT CREDIT RISKS.

2. MODALITIES

A. PREMIUM: 1.0 PERCENT PER ANNUM CALCULATED

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PAGE 02 STATE 072568

ON CONTRACT VALUE OF INSURED ELEMENTS.

B. MINIMUM CONTRACT: 2 MILLION FRANCS.

C. MINIMUM LEAD TIME (TIME FOR EXECUTION OF CONTRACT): 12 MONTHS.

D. COMMODITY COVERAGE: ONLY CLEARLY FRENCH-ORIGIN INPUTS OF GOODS AND SERVICES ARE COVERED.

E. GEOGRAPHICAL COVERAGE: EXPORTS TO OTHER E.C. COUNTRIES ARE EXCLUDED, AS ARE EXPORTS OF MILITARY EQUIPMENT TO DEVELOPED COUNTRIES.

F. AMOUNT OF COMPENSATION: CALCULATED BY APPLYING TO INITIAL CONTRACT VALUE A PERCENTAGE FOR COST INCREASES BASED ON INTERNAL FRENCH PRICE INDICES, LESS DEDUCTIBLE FOR "NORMAL INTERNATIONAL PRICE INCREASES". FOR LARGE CONTRACTS, COST INCREASES ARE DETERMINED "BY EXPERTS" ON CASE BY CASE BASIS.

G. DEDUCTIBLE, VALID FOR THE DURATION OF CONTRACT, IS NOW ESTABLISHED AT 6.5 PERCENT PER YEAR, 8 PERCENT FOR MILITARY EQUIPMENT OR CONTRACTS WITH A PARTICULARLY LONG LEAD TIME. STANDARD DEDUCTIBLE IS BASED ESSENTIALLY ON AN ESTIMATE FOR RATE OF INFLATION IN FRG OVER NEXT FOUR YEARS. DURING 1974, VARIOUS RATES WERE EMPLOYED ON AN AD HOC BASIS, RANGING AS HIGH AS 12 PERCENT.

H. NO FIXED CEILING ON COST INCREASES WHICH ARE COMPENSATED.

3. BUDGETARY COSTS OF PROGRAM, AS REPORTED TO PARLIAMENT

1973- 585 MILLION FRANCS

1974- ABOUT 900 MILLION FRANCS

1975- ABOUT 900 MILLION FRANCS (THIS IS INITIAL

ESTIMATE, WHICH WILL UNDOUBTEDLY BE

EXCEEDED, PERHAPS WELL OVER 1 BILLION FRANCS)

1976-78- FINANCE MINISTER FOURCADE HAS ESTIMATED

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PAGE 03 STATE 072568

COSTS AS HIGH AS 1.5 BILLION FRANCS PER YEAR. AFTER, 1978-80 COSTS SHOULD DECLINE.

4. COVERAGE. NEW CONTRACTS COVERED DURING YEAR, AS REPORTED TO PARLIAMENT

1972- 5.9 BILLION FRANCS

1973- 5 BILLION FRANCS (414 CONTRACTS)

5. RESULTS. THERE ARE NO FIGURES AVAILABLE ON THE VALUE OF EXPORTS CORRESPONDING TO GUARANTEE PAYMENTS MADE EACH YEAR. ACCORDING TO FINANCE MINISTRY, ACCOUNTING AND REIMBURSEMENT PROCESSES CAN BE EXTREMELY LONG, SO THAT IN ANY ONE YEAR PAYMENTS ARE MADE ON

CONTRACTS CONCLUDED OVER AN EIGHT-YEAR SPAN. REIMBURSEMENTS CAN FOLLOW ACTUAL EXPORTS BY SEVERAL YEARS. AT PRESENT TIME, PAYMENTS ARE BEING MADE ON CONTRACTS FROM PERIOD 1965-73 WITH MAJORITY DATING FROM 1969-71. INDEED, ACCORDING TO GOF, SWELLING OF EXPENDITURES IN RECENT YEARS (FROM ABOUT 50 MILLION FRANCS IN 1969) IS PRINCIPALLY DUE TO DRAMATIC COST INCREASES ARISING FROM 1968 WAGE SETTLEMENTS FOLLOWING MAY-JUNE "EVENTS"; A FACTOR PECULIAR TO FRANCE (AND ALSO COMPENSATED FOR THROUGH 1969 FRANC DEVALUATION). A SMALLER SPURT IN PAYMENTS WILL BE OCCASIONED BY 1974 INFLATION, IT IS EXPECTED. HENCE, FINANCE MINISTRY POINTED OUT, PAYMENTS AT SUBSTANTIAL RATES WOULD CONTINUE FOR REMAINDER THIS DECADE EVEN IF PROGRAM WERE NOW TO BE DISCONTINUED. HOPE IS, IN FACT, THAT 1978-80 WILL MARK SHARP DOWNTURN IN DISBURSEMENTS. GOF HAS BEEN DEFENSIVE ABOUT RISING COSTS OF PROGRAM AND PARLIAMENTARY CRITICISM THAT BENEFITS ALSO GO TO MNC'S EXPORTS TO AFFILIATED COMPANIES TAKING PLACE AS PART OF "DIVISION OF LABOR". FIRST CRITICISM, AT LEAST, HAS BEEN MET BY SUBSTANTIAL INCREASE IN RATES (OVER 0.5 PERCENT PREMIUM AND 4.5 DEDUCTIBLE IN BEGINNING OF 1974).

6. RATIONALE. ACCORDING TO FINANCE MINISTRY, RATIONALE UNCLASSIFIED

UNCLASSIFIED

PAGE 04 STATE 072568

OF PROGRAM IS TO INSURE THAT FRENCH EXPORTER DOES NOT SUFFER FROM A PROBLEM BEYOND HIS CONTROL - DOMESTIC INFLATION. PROGRAM IS DESIGNED ONLY TO COMPENSATE FOR THIS EFFECT IN ABSENCE OF NEUTRALIZATION WHICH EXCHANGE RATE ADJUSTMENTS MIGHT PROVIDE IN STANDARD ECONOMIC THEORY. IT IS NOT TO ENCOURAGE EXPORTS OR ENRICH EXPORTERS. FOR THIS REASON, GOF HAS BEEN PARTICULARLY CONCERNED THAT DEDUCTIBLE FOR INTERNATIONAL PRICE INCREASES BE SUFFICIENTLY HIGH. A SECOND ARGUMENT ADVANCED FOR PROGRAM WAS THAT FRANCE "SHOULD NOT MAKE LDC IMPORTERS PAY FOR FRENCH INFLATION". IT WAS ALSO SUGGESTED THAT MORE STABLE EXPORT PRICES TO OIL-PRODUCERS WOULD ALSO DEPRIVE OIL PRODUCERS OF AN ARGUMENT TO RAISE THEIR PRICES.

7. COMMENT. WHILE THERE IS NO DOUBT THAT REMOVING
WORRY OF EXCESSIVE PRICE INCREASES OF DOMESTIC INPUTS
ENABLES BENEFITING CAPITAL-GOODS EXPORTERS TO KEEP
THEIR OFFERS LOWER THAN THEY MIGHT OTHERWISE BE,
ACTUAL TRADE IMPACT IS IMPOSSIBLE TO MEASURE.
EMBASSY COMMERCIAL OFFICE HAS NO RECORD OF
COMMENTS OR COMPLAINTS ON SUBJECT FROM AMERICAN
EXPORTERS OR COMPANIES HERE. HOWEVER, FIGURES WE DO
HAVE FOR RECENT YEARS ON VALUE OF CONTRACTS UNDER-
WRITTEN, NUMBER OF CONTRACTS INVOLVED, AND VALUE
OF SETTLEMENTS SUGGEST THAT THIS PROGRAM BENEFITS
PRIMARILY SMALL NUMBER OF EXPORT DEALS WITH HIGH AVERAGE
UNIT VALUE AND THAT FOR THESE PROJECTS IT RESULTS IN
SUBSTANTIAL REDUCTION OF PRICE TO FOREIGN BUYER,
COMPARED TO FINAL COSTS OF PRODUCTION (PERHAPS IN
EXCESS OF 10 PERCENT). EVEN THOUGH WE SEE NO WAY
WITH DATA AT OUR DISPOSAL TO MEASURE TRADE IMPACT, WE
REGARD THIS PROGRAM AS CLEARLY ONE OF SUBSIDIZING
FRENCH EXPORTS AND RECOMMEND THAT AS MATTER OF
PRINCIPLE WE SEEK EXAMINATION OF IT IN MTN FRAMEWORK.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE LAW, EXPORT INSURANCE, CAPITAL GOODS, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE072568
Document Source: CORE
Document Unique ID: 00
Drafter: RDHARDING
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750111-1106
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975031/aaaaaalb.tel
Line Count: 192
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 STATE 58392
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUN 2003 by SilvaL0>; APPROVED <02 MAR 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXPORT PRODUCTION COST RISK INSURANCE IN FRANCE
TAGS: EFIN, ETRD, FR
To: OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006